IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO DIVISION OF FINANCIAL MANAGEMENT FEBRUARY 2003 VOLUME XXIV NO. 08

For years Idaho's economy has been compared to the caboose of a long train. This was because traditionally it has behaved like the end of a train. First, it tends to be driven by the locomotive known as the national economy. Second, there is a lag between the national economic locomotive starts pulling and the local economic caboose starts moving. As a result, the state's economy usually slows down gradually at the bottom of the national business cycle and is the last to move during an expansion. This is because the Idaho's economy has traditionally been resource based, so it usually took awhile for changes in national demand to trickle down to the state level. A classic example of this was the state's performance during the 1980-83 double dip recessions. Idaho economy experienced near-depression like conditions after the U.S. economy sank into those back-to-back recessions. Unfortunately, Idaho's economy remained off track long after the national economy had left the station. But this situation changed in the years that followed.

No analogy is perfect, but this one seemed to capture the link between the state and national economies reasonably well for a long time. However, by the end of the 1980s, it was starting to show signs of aging. A major test of its relevance came with the 1990-91 recession. The national slowdown had all the classic traits. Shaken consumers curbed spending, which caused output to nosedive. Faced with softer demand, U.S. companies shed jobs. In 1991, nonfarm employment shrank 1.4% and grew a meager 0.3% in 1992 and 1.9% in 1993. After a short delay, we'd expect Idaho's economy to head down the same track. But it did not. Idaho nonfarm employment steamed ahead during this period. In 1991 alone, it advanced a healthy 3.3%--and this was its lowest point. It picked up momentum in each of the next three years, growing by an astounding 5.6% in 1994. To salvage the train analogy, it was as if Idaho's economy had decoupled from the U.S. economy, jumped onto another track, and was a runaway.

Idaho's success during the 1990-91 recession reflects its ongoing economic transformation. A major player in the structural change is the high-tech sector. A short history shows how this sector has changed the Idaho economy. From being almost nonexistent in the early 1970s, the state's high-tech sector became an important industry by the 1990s. For example, this sector, which accounted for just 3.0% of manufacturing employment in 1970, was the largest manufacturing employer by 1995 and accounted for over 25.0% of manufacturing employment. This worked to the state's advantage during the 1990-91 recession because the state's high-tech sector was producing a mix of goods that was in demand during the nation's business investment boom. By the year 2000, the state's high-tech employment was within striking range of 25,000.

High-tech employment peaked in 2000. Ironically, it is the state's dependency on high-tech manufacturing that has caused it to suffer from the start of the 2001 recession. High-tech manufacturing declined 0.8% in 2001 and an estimated 9.4% in 2002. Idaho total nonfarm employment dropped an estimated 0.7% in 2002. The reason high-tech is suffering more than in the previous recession is because the train cars have been rearranged. Instead of being caused by the traditional drop in consumer spending, the 2001 recession reflected a collapse in business investment. Idaho's high-tech sector is coupled directly to this car, so the impact of the collapse on Idaho was almost immediate. This also infers the high-tech sector will move forward again once the nation's investment engine picks up steam. The good news is it is already showing signs of leaving the station. Real investments in computers and software have experienced strong gains recently. The current schedule shows the high-tech sector is back on track in the second half of this year. Of course, there is still a lag between when national investment recovers and local high-tech employment improves.

Idaho's high-tech manufacturing sector may not be on the same timetable. Unfortunately, Micron company officials reduced its total work force by 10% in late February--its first since the mid-1980s. This resulted in the loss of about 1,100 jobs in the Treasure Valley. While a job loss of this magnitude may seem small in an economy with over 560,000 jobs, its impact will be profound. A major fear is it will hurt consumer confidence. This is because it was hoped the strength that kept Micron from reducing its work force during the worst industry downturn, would help it lead Idaho out of its economic slump. The layoffs suggest Micron is not immune from the ebbs in the business cycle. However, most analysts believe this move was necessary to keep the company healthy and in an excellent position to move forward when the nation's economic train picks up steam.

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General Fund Update

As of January 31, 2003

Revenue Source	FY03 Executive Estimate[3] ($ Millions)	DFM Predicted to Date ($ Millions)	Actual Accrued to Date ($ Millions)
Individual Income tax	890.9	526.8	514.4
Corporate Income tax	81.8	47.4	39.0
Sales Tax	673.2	421.2	422.1
Product Taxes[1]	21.6	13.0	12.8
Miscellaneous	99.9	40.0	39.8
TOTAL GENERAL FUND[2]	**1,767.4**	**1,048.4**	**1,028.1**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of August 2002

General Fund revenue weakness accelerated in January, coming in $16.9 million below the month's target. The fiscal year to date now stands $20.3 million lower than expected. While this is not a welcome development, the situation is not as bad as it appears at first glance. The bulk of the weakness in January ($15.4 million) is in the income tax, and almost two-thirds of the income tax shortage is due to excess refunds. Corporate refunds of $6.6 million in January were over four times higher than the previous all-time high for the month, and $6.1 million higher than expected. This unusual situation has to do with later than normal processing for the 2001 tax year. Individual refunds were $3.9 million higher than expected, and all of the excess appears to be attributable to accelerated electronic filing.

Individual income tax revenue was $8.2 million lower than expected in January. On the receipts side filing payments were $0.8 million higher than expected and withholding payments were $5.2 million lower than expected, yielding a net shortage of $4.4 million. Refunds were $3.9 million higher than expected for the month. The excess refunds appear to be strictly a matter of timing, but the weakness in withholding is a source of concern. Widespread expectations for a weak holiday selling season, combined with poor snow conditions late last year, suggest January's withholding weakness may be due to unusual seasonal employment patterns.

Corporate income tax revenue was $7.0 million lower than expected in January. Filing payments were $0.2 million below target, and estimated payments were $0.7 million lower than expected for the month. Unfortunately, refunds were $6.1 million higher than expected in January. These excess refunds appear to be related to the 2001 tax year, so they don't shed much light on future corporate income tax performance. They do, however, make it more difficult to reach this fiscal year's Corporate Income Tax forecast.

Sales tax revenue was $0.6 million lower than expected in January. This revenue reflects sales activity in December. Year-over-year growth was actually 3.7 percent, making Idaho's sales tax performance quite favorable in comparison to the rest of the nation. Sales tax is ahead by $0.9 million on a year-to-date basis.

Product tax revenue was exactly on target in January. Miscellaneous revenues were low by $0.9 million. Unclaimed property receipts were $0.2 million lower than expected, interest earnings were $0.3 million lower than expected, the estate tax was $0.3 million lower than expected, and the kilowatt-hour tax was $0.1 million lower than expected.